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STATE FOR EAP/MLS AND EB  
STATE PASS TO USTR  
TREASURY FOR OASIA  
COMMERCE FOR EAP/MAC/OKSA  
SINGAPORE FOR FINATT BAKER

SENSITIVE  
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E.O. 12958: N/A  
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SUBJECT: Thai Finance Minister says Baht should be Weaker

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Ref: Singapore 1127

¶1. (SBU) Summary: Thai Finance Minister Suchart told the Ambassador October 21 that he would prefer a "weaker" baht to promote exports, given Thailand's high dependence on export growth to keep its economy expanding. He also has proposed extending deposit protection guarantees to maintain investor confidence, postponing the implementation of tighter banking standards to free-up bank lending, and lower interest rates and increased government spending to boost economic growth. The Bank of Thailand (BoT), which would have to concur in the finance policy moves, has publicly opposed FinMin Suchart's proposals. End Summary.

¶2. (SBU) Comment: The Ministry of Finance, and new Finance Minister Suchart in particular, has had a long-running battle with BoT, Thailand's central bank, over policy issues. Suchart, then the Deputy Minister of Finance, even suggested last August that BoT governor Tarisa should step down if the BoT could not support Finance Ministry policy. Under Bank of Thailand Act, however, the Bank, not the Ministry, has the say on baht policy and interest rates and we have no indication that Gov. Tarisa is likely to back down. End comment.

¶3. (SBU) The Ambassador and Economic Counselor met October 21 with Minister of Finance Dr. Suchart Thada-Thanrongvech to get a read-out of his visit to Washington for the IMF/World Bank meetings the previous week. FinMin Suchart said that his trip to Washington went well and he appreciated his meetings with USG officials, but the conversation quickly turned to the domestic scene in Bangkok.

¶4. (SBU) The day of the meeting, the local press gave prominent coverage to the economic policy conflicts between FinMin Suchart and Bank of Thailand Governor Dr. Tarisa Watanagase. FinMin Suchart dismissed the controversy as the press making more of the story than was actually the case. However, he then made the point that as Finance Minister he has a responsibility to speak to the economic issues facing the country. Noting that economic growth was likely to drop to four percent, or lower, in the next year, he pointed out that Thailand's heavy dependence on exports for economic growth made a looming recession in the United States and Europe particularly worrisome. Exports are 60 percent of the Thai GDP, and have accounted for the bulk of economic growth in recent years. With domestic consumption and investment expected to be flat, a drop in exports would put a tremendous burden on the government to make up the difference through additional fiscal spending if the economy is to grow. "I worry about rising unemployment," the FinMin said.

¶5. (SBU) Facing this situation, the FinMin asked, "How can I not speak out about the value of the baht? I would prefer that the baht be weaker" to make exports more competitive. He then went on to

explain that his econometric modeling (Suchart was earlier a university professor) showed that a five percent drop in the value of the baht would result in a ten percent increase in exports. When the Ambassador asked whether this might not lead to inflation, FinMin Suchart explained that his model showed that the inflation effect would be minimal.

¶6. (SBU) FinMin Suchart also said that to deal with the impact of the world financial crisis, Thailand should also consider: 1) extending the existing blanket government guarantee of bank deposits an additional three years to maintain the confidence of depositors (see reftel), 2) postpone the implementation of Basel II capital standards, fearing that early imposition could restrict bank lending, 3) increase government spending, and 4) lower interest rates. All of these ideas, except the fiscal stimulus, have been publicly refuted by BoT Governor Tarisa. FinMin Suchart told the Ambassador that his intention is simply to "get these ideas out for discussion."